Oregon

PUBLIC
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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

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FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON DC 20554

RE: Comments Concerning Notice of Proposed Rulemaking in CC Docket No. 92-296

The Public Utility Commission of Oregon (PUC) wishes to offer comments concerning the FCC proposals to simplify procedures used in the depreciation prescription process. These comments will be organized into three sections. The first section will present our views on the current depreciation process and the desirability of changing it. The second section will explain our experience with the use of depreciation guidelines for Oregon's small telephone companies. The third section will present comments on the specific proposals being considered by the FCC.

The Current Depreciation Process

The current depreciation process, involving three-way meetings between companies, FCC staff, and PUC staff, has worked very well. Companies are free to request whatever depreciation rates they wish. The FCC depreciation staff is competent and brings a broader knowledge of industry depreciation trends than does the PUC staff, which is quite familiar with the trends for the companies it regulates. FCC three-way meetings have produced excellent discussions which have led to rates which ensure the timely availability of new technologies and are fair to all generations of customers. For example, depreciation rates resulting from three-way meetings have led to the expectation that by the end of 1993 virtually all switches in Oregon will be digital. This desirable outcome will be accomplished without unfairly burdening current customers.

If three-way meetings are discontinued, the benefits to both the FCC and the PUC will be lost. Over time, significant differences between interstate and intrastate depreciation rates are likely to arise. Such differences are much less likely under the current depreciation process, a conclusion borne out by the history of three-way meetings involving the PUC.

The stated reason for the current proposals is to reduce costs for subject companies. The total annual costs for the 35 companies involved is estimated, by them, to be between \$35 million and \$50 million. If this number is correct, the proportionate share for U S WEST is approximately

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$1.5 million. This amount compares to annual company revenues of $8.1 billion and a current depreciation expense of $1.7 billion. We think it is obvious that the cost to U S WEST of the current depreciation process is minor, particularly since at least some of it would need to be incurred even if one of the four options is adopted.

We believe the current FCC depreciation process serves everyone well, and should be retained. If this is not possible, we will explain shortly why the Basic Factor Range Option should be used.

Depreciation Guidelines in Oregon

The PUC no longer uses traditional rate-of-return regulation for Oregon's small telephone companies. Instead, expenses passed on to a cost pool are examined for reasonableness. One of the expenses examined is depreciation. Because the period for reviewing expenses is short, the PUC staff simply does not have enough time to closely examine the depreciation expense of every small company. We, therefore, have adopted the use of depreciation rate guidelines for our small companies. Depreciation rate guidelines were adopted, rather than parameter guidelines, because the necessary continuing plant record data is not available. Our guidelines were adopted in January of this year. We expect them to be updated every three years.

The process leading to the adoption of our guidelines began in late 1991. Now that it is over, we think we can draw some basic conclusions which may be of interest to you. First, our docket was extremely contentious. You should expect yours to be the same. Second, although we developed guidelines for all accounts, the only accounts which generated any serious interest were the switching and cable accounts. This is not surprising because these are the accounts for which rapid write-offs are sought. If you wish to limit the accounts for which ranges are developed, we recommend that you develop ranges for just the switching and cable accounts. Third, our experience is that the only part of a range which is used is the top part, again because of the desire for rapid write-offs. We believe your companies will generally ignore the bottom of your ranges.

For this reason, you will need to make sure that the top of your ranges are appropriate for all of your companies. Our guideline process allows companies to request that they be allowed to use a rate outside of the guideline, if they can demonstrate that an exception is reasonable. We think an exceptions process is preferable to the adoption of an overly broad range.

The Preferred Process

As we stated above, if the FCC is convinced that a range is needed, the Basic Factors Range Option should be adopted. This option is the only one which can properly reflect the unique mix of plant used by each company. If this option is adopted, companies must be required to maintain proper continuing plant records and be able to provide a generation arrangement of surviving plant. Failure to maintain the proper information will make application of the Basic Factors Range Option impossible. If the Basic Factors Range Option is adopted, the ranges should be updated at least every five years.

The Depreciation Rate Range Option and the Depreciation Schedule Option are both inferior to the Basic Factors Range Option because they cannot properly consider the unique circumstances of individual companies. We urge the FCC not to adopt either of these options.

The Price Cap Carrier Option is not an acceptable option. If it is adopted, differences between interstate and intrastate depreciation rates will undoubtedly arise quickly, and will become significant. This option would allow companies to use depreciation expense as a means of generating desired earnings levels, in order to derive the maximum benefit from Price Cap Regulation. If the Price Cap Carrier Range Option is adopted, depreciation "true-ups" every five years would be essential. Our expectation is that at the end of the first five-year period, actual depreciation rates would look substantially different than the rates which appear proper, and that companies would be extremely resistant to the adoption of the trued-up rates. If the Price Cap Carrier Range is adopted, the maintenance of proper continuing plant records and the ability to provide generation arrangements is critical; otherwise, true-ups will be impossible.

We understand the FCC is also considering a requirement that net salvage amounts be expensed when incurred, instead of being considered in depreciation studies. This proposal should not be adopted because the volatility of net salvage amounts would lead to inequities among different generations of telecommunications customers.

Thank you for allowing us to comment on your depreciation proposals. If you have questions about our comments, please contact Phil Nyegaard of our staff at (503)378-6436.

Ron Eachus
Chairman

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cc: Downtown Copy Center
FCC Accounting and Audits Division

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